

Message Text

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C O N F I D E N T I A L STATE 170025

FOLLOWING REPEAT GENEVA 5957 ACTION SECSTATE INFO BONN
BRUSSELS CARACAS LONDON PARIS ROME USUN 19 JUL 77

QUOTE

C O N F I D E N T I A L GENEVA 5957

USEEC, USOECD

FROM FRANK (IO) FOR COOPER (E), BAKER (IO), AND KATZ (EB)

BONN FOR AMBASSADOR YOUNG; ROME FOR ASST SECY MAYNES

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E.O. 11652: GDS
TAGS: ECOSOC, EGEN, UN
SUBJECT: CONSULTATIONS IN GENEVA ON COMMODITY ISSUES

1. SUMMARY: DURING VISIT TO GENEVA JULY 13-17 DEP ASST SECY
FRANK HAD INFORMAL DISCUSSIONS WITH GROUP B SPOKESMAN, UNCTAD
SECGEN AND VARIOUS KEY G-77 REPRESENTATIVES ON COMMODITY ISSUES
PARTICULARLY RELATING TO THE COMMON FUND. G-77 IS APPARENTLY
STICKING HARD ON THE CENTRAL SOURCE FINANCING IDEA, ARGUING THAT
A POOLING ARRANGEMENT WOULD NOT PROVIDE THE SAVINGS THAT COULD BE

DERIVED FROM FINANCING SEVERAL BUFFER STOCKS AT ONCE, NOR ECONOMIES IN RAISING FUNDS IN CAPITAL MARKETS, NOR INCENTIVE FOR INDIVIDUAL BUFFER STOCK ARRANGEMENTS. G-77 ALSO HAS PROBLEMS WITH A LINK BETWEEN A COMMON FUND AND THE WORLD BANK OR IMF, AS THEY SEE NEED FOR A WHOLLY SEPARATE INSTITUTION BECAUSE OF VOTING STRUCTURE, LACK OF UNIVERSALITY (PARTICULARLY ABSENCE OF SOVIETS AND OTHER COUNTRIES), AND THE COUNTRY-ORIENTATION OF THE BANK'S AND FUND'S WORK. G-77 REPS FURTHER STRESSED THE NEED FOR A BETTER ANSWER TO THE G-77 PROPOSAL FOR A COMMON FUND "SECOND WINDOW" FOR "OTHER MEASURES," WHICH IS OF PARTICULAR CONCERN TO AFRICANS.

FRANK GAVE FULL EXPLANATIONS OF US POSITION ON ALL THESE POINTS. HE ALSO URGED FREQUENT INFORMAL CONSULTATIONS PRIOR TO THE NOW SESSION OF THE COMMON FUND NEGOTIATION, BUT INDICATED IT WAS OVEROPTIMISTIC TO THINK THAT SESSION WOULD RESULT IN FINAL AGREEMENT. HE DISCUSSED THE POSSIBILITY OF AN INFORMAL MEETING IN NEW YORK DURING THE RESUMED 31ST GA BETWEEN UNDERSECRETARY COOPER, AMBASSADORS YOUNG AND KEY G-77 LEADERS. G-77 SPOKESMAN INDICATE DIFFICULTIES WITHIN THEIR RANKS, INCLUDING UNREALISM OF SOME AFRICANS AND SKEPTICISM OF THE BIG LATIN AMERICAN COUNTRIES. HE APPEALED FOR US ASSISTANCE IN INFLUENCING THE FRG. END SUMMARY.

2. DURING FIVE DAYS IN GENEVA JULY 13-17 IN CONNECTION WITH
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ECOSOC SESSION, DEP ASST SECY FRANK (IO) ENGAGED IN INFORMAL DISCUSSIONS ON COMMODITIES ISSUES WITH PARTICULAR REFERENCE TO THE COMMON FUND. DISCUSSIONS ON COMMODITY ISSUES WERE HELD WITH BARRASS (UK), THE GROUP B SPOKESMAN IN GENEVA; GAMANI COREA, SEC GEN OF UNCTAD; CHADDA, FORMER INDIAN AMBASSADOR IN GENEVA AND NOW ON THE STAFF OF THE UNCTAD SECRETARIAT; AMB ALATAS OF INDONESIA, GROUP OF 77 SPOKESMAN IN GENEVA; AMB DADZIE OF GHANA, HEAD OF THE AFRICAN GROUP IN THE COMMON FUND NEGOTIATIONS; AMB MAGHOUB OF THE SUDAN; AND AMB MULIRA FROM KENYA (WHO IS LOCATED IN BONN BUT COMES TO GENEVA FOR COMMODITY DISCUSSIONS).

3. APPARENTLY THE GROUP OF 77 IS STICKING HARD ON THE CENTRAL SOURCE FINANCING IDEA, ARGUING THAT A POOLING ARRANGEMENT WOULD NOT PROVIDE THE SAVINGS THAT COULD BE DERIVED FROM FINANCING BUFFER STOCKS OF SEVERAL COMMODITIES AT ONCE, NOR ECONOMIES IN RAISING FUNDS IN CAPITAL MARKETS, NOR THE POLITICAL AND ECONOMIC INCENTIVES FOR INDIVIDUAL BUFFER STOCK ARRANGEMENTS. THIS ARGUMENT WAS MADE MOST FORCEFULLY AND IN DETAIL BY CHADDA.

4. FRANK ARGUED THAT THIS REASONING WAS INCORRECT. IT WAS QUITE POSSIBLE TO ACHIEVE SAVINGS THROUGH A POOLING ARRANGEMENT SINCE INDIVIDUAL COMMODITY FUNDS NEED ONLY PLEDGE -- IN CASE, COMMODITIES, OR GUARANTEES -- SOME FRACTION, SAY 80 PERCENT, OF THE TOTAL DESIRED FINANCING. THE ONLY CENTRAL FINANCING REQUIRED WAS SOME MEANS TO PROVIDE, ON A CONTINGENCY BASIS, FINANCIAL SUPPORT FOR THE REMAINING 20 PERCENT AGAINST THE SMALL PROBABILITY, SAY 5 PERCENT, THAT AT ANY ONE TIME ALL BUFFER STOCKS WOULD WANT TO DRAW

MORE THAN 80 PERCENT OF THEIR NEEDS. THIS BACKUP COULD BE A CALL ON THE CAPITAL OF THE WORLD BANK, OR THE RESOURCES OF THE IMF OR IT COULD BE SOME CENTRAL POOL OF CASH OR GUARANTEES.

5. FRANK AGREED THAT IF THE G-77 COULD NEGOTIATE A COMMON FUND COMPLETELY ON THE BASIS OF CENTRAL SOURCE FINANCING IT MIGHT PROVIDE AN INCENTIVE FOR INDIVIDUAL COMMODITY ARRANGEMENTS. BUT THE CENTRAL POOL WOULD CREATE AN INCENTIVE FOR POORLY CONCEIVED, UNECONOMICAL BUFFER STOCK ARRANGEMENTS SINCE EVERYONE WOULD WANT TO
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ET A SLICE OF THE CENTRAL SOURCE PIE. IN OUR CONCEPT, THE INDIVIDUAL PRODUCERS AND ECONSUMERS SHOULD BEAR THE BRUNG OF THE FINANCING IN ORDER TO HELP ASSURE THAT THEY WOULD DESIGN A SENSIBLE BUFFER STOCK ARRANGEMENT OF BENEFIT TO BOTH THE PRODUCERS AND CONSUMERS. ACCESS TO ANY CENTRAL SOURCE FINANCING SHOULD BE PROPORTIONED TO THE AMOUNT OF FINANCIAL COMMITMENT THAT THE PRODUCERS AND CONSUMERS OF THE INDIVIDUAL COMMODITIES WERE WILLING TO UNDERTAKE. THIS SEEMED TO US TO BE AN ESSENTIAL ELEMENT OF ANY COMMON FUND TO WHICH WE COULD AGREE SO THAT A COMPLETELY CENTRAL SOURCE FUND WAS SIMPLY NOT NEGOTIABL

6. LINK BETWEEN A COMMON FUND AND THE WORLD BANK OR IMF WAS DESCRIBED BY CHADDA AS DIFFICULT FOR G-77 TO ACCEPT. THEY FELT THE NEED FOR A WHOLLY SEPARATE INSTITUTION BECAUSE OF VOTING STRUCTURE, LACK OF UNIVERSALITY (PARTICULARLY ABSENCE OF SOVIET UNION AND OTHER EASTERN EUROPEAN COUNTRIES), AND COUNTRY-ORIENTATION OF THE WORK OF THE BANK AND THE FUND. FRANK IMPLIED THAT LINK COULD HAVE SUBSTANTIAL ADVANTAGES, INCLUDING ACCESS TO IFI RESOURCES, EFFICIENCY OF MANAGEMENT, AND LOWER COST ACCESS TO PRIVATE CAPITAL MARKETS. SOVIET UNION COULD BELONG TO CF WITHOUT BECOMING A MEMBER OF BANK OR FUND. COUNTRY FOCUS OF BANK WAS SHIFTING TO A SECTORAL FOCUS AND WE WERE HOPING TO GET THE FUND MORE INVOLVED IN BROAD MACROECONOMIC POLICY ISSUES. THERE WOULD BE NETURAL POLICY LINKS BETWEEN A COMMON FUND AND THE BANK AS REGARDS WORK THEY MIGHT DO ON "OTHER MEASURES" AND THE FUND IN THAT BUFFER STOCKS COULD BE CONSIDERED AS AN ANTI-INFLATIONARY MACRO-ECONOMIC POLICY TOOL. US AT THIS POINT HAD NO FIRM POSITION ON THE INSTITUTIONAL FRAVEWORK FOR A COMMON FUND BUT WAS LOOKING CLOSELY AT A RANGE OF OPTIONS.

7. ALL OF THE PEOPLE WITH WHOM FRANK TALKED ON THE COMMON FUND ISSUE STRESSED THE NEED FOR A BETTER ANSWER TO THE G-77 PROPOSAL FOR A SECOND WINDOW OF THE COMMON FUND FOR "OTHER MEASURES." THIS
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ISSUE IS OF PARTICULAR CONCERN TO SOME OF THE AFRICAN COUNTRIES. IN DISCUSSIONS WITH AMBASSADOR MAGHOUB OF SUDAN AND MULIRA OF KENYA, FRANK INDICATED THAT WE WERE AWARE OF THE PROBLEM AND LOOKING AT VARIOUS POSSIBLE SOLUTIONS, MAGHOUB MADE THE POINT THAT

SUDAN'S EXPORTS WERE 65 PERCENT DEPENDENT ON COTTON BUT THE LAST PREPARATORY MEETING ON COTTON WENT VERY BADLY SO THAT THEY SAW A DEFINITE NEED FOR A SECOND WINDOW IF THEY WERE TO BENEFIT FROM THE COMMON FUND. FRANK REPLIED THAT WE HAD TO LOOK MORE CAREFULLY AT COTTON AND ALTHOUGH THERE IS LITTLE POSSIBILITY OF AN INTERNATIONAL BUFFER STOCK FOR COTTON, THERE MIGHT BE OTHER WAYS IN WHICH A COMMON FUND COULD SUPPORT A LOOSE CONSULTATIVE ARRANGEMENT ON COTTON.

8. WITH ALL THOSE TO WHOM HE SPOKE, FRANK INDICATED IT WAS VERY OPTIMISTIC TO EXPECT THAT THE NOVEMBER SESSION OF THE COMMON FUND NEGOTIATIONS COULD RESULT IN A FINAL AGREEMENT. HE SAID THAT WE FELT IT IMPORTANT TO ENGAGE IN FREQUENT INFORMAL CONSULTATIONS LARGELY ON A BILATERAL BASIS IN ORDER TO KEEP A SENSE OF REALISM AND UNDERSTANDING OF THE LIMITS OF POSITIONS ON ALL SIDES BEFORE THE NOVEMBER NEGOTIATIONS BEGIN. IT WAS NOTED THAT A RECENT RESOLUTION PASSED BY THE UNCTAD COMMITTEE ON THE INTEGRATED PROGRAM CALLED ON THE SECRETARY GENERAL OF UNCTAD TO COMMENCE INFORMAL DISCUSSIONS. BARRASS OF UK SAID THAT GROUP B INTERPRETED RESOLUTION TO MEAN THAT THE SYG SHOULD CONVENE SUCH MEETING ONLY AT THE FUTURE REQUEST OF GROUP B AND GROUP 77. FRANK NOTED ANYWAY THAT A FORMAL REQUEST FOR INFORMAL MEETINGS MADE THEM AUTOMATICALLY FORMAL AND THAT WAS NOT WHAT WE HAD IN MIND.

9. ALL OF THE G-77 PEOPLE TO WHOM FRANK SPOKE INDICATED THAT THEY PLANNED TO BE IN NEW YORK AT THE TIME OF THE RESUMED 31ST SESSION OF THE UNGA AND SUGGESTED THAT THIS WOULD PROVIDE A GOOD OPPORTUNITY FOR INFORMAL DISCUSSIONS. WITH AMB ALATAS, FRANK SUGGESTED THE POSSIBILITY OF A LUNCHEON IN NEW YORK TO WHICH UNDERSECRETARY COOPER MIGHT COME AND HE AND SEVERAL OTHER KEY G-77 REPRESENTATIVES COULD BE INVITED. SUCH A LUNCHEON MIGHT BE HOSTED BY AMB YOUNG. AMB ALATAS WAS VERY ENTHUSIASTIC ABOUT THIS IDEA AND SAID HE WOULD CONFIDENTIAL

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LIKE TO SUGGEST THE G-77 PEOPLE WHOM IT WOULD BE MOST ADVANTAGEOUS TO INVITE. FRANK CAUTIONED THAT THIS WAS ENTIRELY A PERSONAL IDEA BUT HE WOULD CHECK WITH UNDERSECRETARY COOPER TO SEE IF IT COULD BE ARRANGED. SCHEDULING MIGHT BE A PROBLEM.

10. AMB ALATAS SAID THAT HE IS HAVING VERY DIFFICULT PROBLEMS WITHIN THE GROUP OF 33 -- A COMMITTEE OF THE G-77 MEETING TO DEVELOP A G-77 POSITION ON THE COMMON FUND. HE IS HAVING MOST DIFFICULTY IN GETTING SOME OF THE AFRICAN COUNTRIES TO BE MORE REALISTIC -- MENTIONING SPECIFICALLY SUDAN, KENYA AND BENIN. SOME OF THE LATIN AMERICAN DELEGATIONS, PARTICULARLY THE ONES FROM THE BIG COUNTRIES, ARE ATTEMPTING TO UNDERMINE THE WHOLE NEGOTIATION AND ARE SKEPTICAL OF A COMMON FUND. THE ASIAN COUNTRIES AND THE OTHER AFRICAN AND LATIN AMERICAN COUNTRIES ARE IN THE MIDDLE AND HE IS WORKING HARD TO ENLARGE THAT MIDDLE GROUND. THUS HE THOUGHT IT IMPORTANT TO CHOOSE CAREFULLY THE COUNTRIES THAT MIGHT PARTICIPATE IN ANY INFORMAL DISCUSSIONS.

11. HE APPEALED ESPECIALLY TO US TO USE OUR INFLUENCE WITH THE FEDERAL REPUBLIC OF GERMANY. HE SAID THAT GERMAN REPRESENTATIVES TO INDIVIDUAL COMMODITY MEETING AND GENERAL MEETINGS ON THE INTEGRATED COMMODITY PROGRAM WERE BEING QUITE OBSTRUCTIONIST AND TAKING A VERY HARD NEGATIVE LINE. FRANK MENTIONED THAT AMB YOUNG AND OTHERS WOULD BE IN BONN ON TUESDAY, JULY 19, AND THEY MIGHT RAISE THE ISSUE.

12. COMMENT: IT IS CLEAR THAT STILL QUITE A LOT OF EDUCATION IS REQUIRED TO GET THE G-77 WITHIN THE NEGOTIATING BALLPARK ON THE COMMON FUND. THE ISSUES ARE SO DIFFICULT AND COMPLEX, HOWEVER, THAT IT IS IMPORTANT THAT INFORMAL CONSULTATIONS FOCUS ON THE KEY PERSONALITIES WITHIN THE G-77 AND THE UNCTAD SECRETARIAT WHO ARE THOROUGHLY KNOWLEDGEABLE ON THE ISSUES. MOST OF THESE PEOPLE ARE LOCATED IN GENEVA OR ELSEWHERE IN EUROPE (E.G.,
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KENYAN AND TANZANIAN AMBASSADORS IN BONN) AND WITH A FEW EXCEPTIONS, MOST NOTABLY THE PEREZ-GUERRERO STAFF IN CARACAS, NOT IN CAPITALS. MOST OF THESE PEOPLE WILL BE IN NEW YORK AT THE TIME OF THE RESUMED 31ST SESSION OF THE UNGA, SEPT 13-16, SO THAT THIS IS A GOOD TIME TO ENGAGE IN CONSULTATIONS. PERHAPS ALSO SOMEONE KNOWLEDGEABLE ABOUT COMMODITY ISSUES AND NORTH-SOUTH DIALOGUE OUGHT TO ACCOMPANY AMB YOUNG ON HIS TRIP TO CARACAS IN EARLY AUGUST IF PEREZ-GUERRERO AND HIS STAFF WILL BE IN TOWN. END SOMMENT. VANDEN HEUVEL.
UNQUOTE VANCE.

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